

**Before the
Federal Communications Commission
Washington, D.C. 20554**

In the Matter of)	
)	
Connect America Fund)	WC Docket No. 10-90
)	
A National Broadband Plan for Our Future)	GN Docket No. 09-51
)	
High-Cost Universal Service Support)	WC Docket No. 05-337

NOTICE OF INQUIRY AND NOTICE OF PROPOSED RULEMAKING

Adopted: April 21, 2010

Released: April 21, 2010

Comment Date: (60 days from publication in the federal Register)

Reply Comment Date: (90 days from publication in Federal Register)

PEOPLES TELECOMMUNICATIONS, LLC INITIAL COMMENTS

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July 12, 2010

I. INTRODUCTION

Peoples Telecommunications, LLC (“Peoples”) submits these comments in response to the Federal Communications Commission’s (“FCC”) Notice of Inquiry and Notice of Proposed Rulemaking, FCC 10-58, “In the Matter of Connect America Fund”, WC Docket No. 10-90, “A National Broadband Plan for Our Future”, GN Docket No. 09-51, and “High-Cost Universal Service Support”, WC Docket 05-337 (“Order”).

Peoples believes that the goals within the National Broadband Plan (“NBP”) are admirable. However, the means of achieving these goals include initiatives that are a major concern for the rural Incumbent Local Exchange Carriers (“ILECs”). Most rural ILECs have already implemented broadband within their service areas, or are in the process of completing projects for broadband.

Peoples is specifically addressing the following key question from Paragraph 53 of the FCC 10-58 Order:

“To the extent that any commenter believes that these proposals, or the proposal to cap legacy high-cost support, would negatively affect affordable voice services for customers, we would encourage such a commenter to identify all assumptions and to provide data, including information on network investment plans over the next five years and free cash flows, to support that position”.

Peoples includes with these comments financial information that demonstrates how the proposed changes to the legacy Universal Service Fund (“USF”) are not favorable for the continuance of universal service in rural areas without sufficient replacement support and may jeopardize the financial viability of Peoples Telecommunications, LLC.

II. BACKGROUND

As of December 31, 2009, Peoples served 1,383 one-party residential, single-line and multi-line business lines, including 62 Life-line customers, in the eastern portion of the State of Kansas from our office in LaCygne. We have a staff of 11 employees and offer wireline voice services, computer repair, and broadband services. We recently applied for broadband stimulus funds to assist with offering higher capacity to the underserved consumers in our service area. We completed a fiber project in 2008 that allowed us to serve some of our service territory with additional broadband services.

Peoples plans to replace buried cable with buried fiber by fourth quarter 2011, if the stimulus application is granted. Peoples utilizes a soft switch, is Communication Assistance to Law Enforcement Act (“CALEA”) compliant, and meets all of the requirements of an Eligible Telecommunications Carrier (“ETC”), including Carrier of Last Resort (“COLR”).

We are responsive to the needs of our customers and take pride in providing quality voice and data services that meet the needs of our customers because our customers are also our neighbors.

When we applied for the stimulus funds, we prepared financial support and the related business case based on current FCC rules and regulations, including the continuation of legacy USF support. The information provided in our comments is based on the financial information from our stimulus application, modified for NECA’s National Average Cost per Loop (“NACPL”). This information is considered “Business as Usual” which was subsequently adjusted to include the proposed changes as outlined

in the Notice of Inquiry (“NOI”) and Notice of Proposed Rulemaking (“NPRM”), adopted April 21, 2010 for the National Broadband Plan.

III. REVENUE SOURCES

Peoples received its 2009 revenues from the following sources: our end user customers, including Local Services, End User Common Line (“EUCL”), Federal End User Charge (“FUSC”), State USF Surcharge, and Internet; Network Access billed to Carriers; resold Long Distance and Miscellaneous Revenue; State USF; and federal USF which includes Local Switching Support (“LSS”), Interstate Common Line Support (“ICLS”), and High Cost Loop (“HCL”) revenue. The EUCL, LSS, and ICLS support amounts are actually part of interstate revenue requirement.

Based on 1,393 access lines served in 2009, the average revenue percentage per line, per month for the above sources is as follows: End User 21%; Network Access 16%; Long Distance and Miscellaneous 4%; State USF support 6%; and federal USF 53%. The average State and Federal USF support per line per month is 59% of Peoples’ revenue. Exhibit I, “*2009 Monthly Revenue Source per Line*”, provides a pie chart for this information.

Exhibit I also shows the effect of the FCC’s proposals by year 2015 for phasing down federal USF support, as well as the decreasing minute-of-use based access revenue by 50%. The data for 2015 represents the half-way point in the FCC’s proposal to eliminate minute-of-use charges by the year 2020. It is anticipated that Peoples access lines will also decrease to 1,226 by 2015.

The proposed changes to the existing revenue sources are anticipated to produce the following average revenue per line, per month: End User 23%; Network Access 8%; Long Distance and Miscellaneous 3%; State USF support 4%; and federal USF 28%. Total State and Federal USF average support is 32% per line, per month. The 2015 revenue shortfall between “Business as Usual” and the NBP is 34% per line per month that will need to be supported from unknown sources for Peoples to maintain the quality voice and data services that our customers want and have come to expect.

Exhibit II, “*Comparison of Current ICLS Projection vs. Frozen at 2010 Levels Per Line*”, provides a bar chart to display the comparison of ICLS revenues between current projected amounts and amounts frozen at the 2010 level of \$661,312 using per line support of \$484.96. ICLS represents total network loop costs that are maintained even when lines are lost. As lines decrease and less subscriber line charges are applied to the reduced number of lines, the amount of ICLS per line would need to be increased in order for the total study area ICLS amount to be fully recovered. As Peoples lines decrease, the disparity between unfrozen ICLS amounts and ICLS frozen based on 2010 per line amounts will grow to \$171,775 by 2016.

IV. BENCHMARK END USER RATES

Based on 2009 levels and assuming that all 1,393 lines subscribe to local services and long distance, and using DSL lines at the lowest offered tier rate for internet revenue, Peoples would receive \$92.23 per month, per line for these services. Since the \$92.23 reflects total access lines as well as DSL lines in determining a comparable rate, this rate has been used for purposes of benchmarking.

Exhibit III, “*Monthly Revenue Shortfall from Covering Expenses at Comparable Rural/Urban/Wireless End User Benchmark Rates*”, provides a comparison between the amount received from Peoples’ end users of \$92.28 to an actual AT&T’s urban voice-line statement of \$71.61 and an actual Sprint’s wireless statement of \$69.24. Using Peoples’ 2010 total company expenses less special access and miscellaneous revenue, the per line per month expense amount that would not be recovered with end user revenue would be \$126.24 based on Peoples’ revenue per line; \$130.90 at the urban wireline rate; and \$117.26 at the wireless rate. This shortfall does not include an amount for a return on investment.

The information provided in Exhibit III demonstrates that Peoples’ end user rates, as well as those of a comparable urban wireline rate and a comparable wireless rate, do not generate sufficient revenue from local, broadband and long distance subscribers to cover the expenses necessary to provide quality services in our rural service area.

V. INVESTMENTS FOR BROADBAND

Peoples applied for stimulus funds, based on 50% from stimulus grants and 50% from a Rural Utilities Service (RUS) loan. Exhibit IV, “*Projected Regulated Net Investment*”, is a bar chart that provides the impact of the 2008 investments and the anticipated net investment from the granting of the stimulus funds and the portion of the capital expenditures from a RUS loan that is included in rate base.

The financial information for the stimulus application included projected revenue amounts for HCL, LSS and ICLS based on existing USF programs. At the time of the broadband stimulus application, the FCC’s NBP proposals were not known. Estimating

future HCL support has always been difficult as the NACPL has always been a “best guess” amount. Our consultants, Warinner, Gesinger and Associates, LLC (WGA) estimated the NACPL at \$453.81 for calendar year 2009 and increased this by \$32.50 per year through 2016 to \$616.31. The National Exchange Carrier Association (NECA) in June 2010, for the first time, released its projected NACPL for 2009 at \$464.78, which due to the negative rural growth factor of minus 3.5%, increases to \$846.38 by 2016.

VI. COMPARISON OF PROJECTED HIGH COST LOOP SUPPORT

Exhibit V, “*Projected High Cost Loop Support*” provides a comparison of the amounts of HCL support using WGA’s NACPL; the NACPL estimated by NECA and the amount of HCL support frozen at 2010 levels. The reduction in projected HCL between amounts determined using WGA’s estimated NACPL and amounts based on NECA’s NACPL, on a cumulative basis, is (\$780,998) by 2016. Peoples’ stimulus application was filed based on WGA’s estimated NACPL and Peoples’ anticipated Study Area Cost per Loop (“SACPL”). Peoples’ SACPL reflects significant investments in 2011 for which HCL support would not be received until 2013 under the current rules. Under the NBP proposal to freeze HCL at 2010 levels and to phase down HCL support over 20 years, the added investment in 2011 would not be recovered through HCL.

VII. CASH FLOW PROJECTION

Presented in Exhibit VI, “*Cash Flow Projection*”, is information related to cash-flows through 2016 comparing “Business as Usual” support amounts to USF amounts based on the proposals referenced in the NBP. The decrease in cash-flow for “Business

as Usual” is directly related to NECA’s projected increase in the NACPL which drastically reduces the year-over-year amount of anticipated HCL support. Without changes to offset the increase in the NACPL and the decrease in loops, Peoples’ cash-flow becomes negative by 2015.

The “Business as Usual” revenues were adjusted to provide the NBP cash-flow revenue amounts as follows: (1) ICLS revenue was based on the 2010 support per line (Exhibit II) and, (2) HCL support and state and federal access revenues were phased down by 10% per year.

The NBP’s proposals regarding the phase down and elimination of traditional access revenues will have a negative impact on our operating revenues. Federal access rates are lower because the End User Common Line (EUCL) was implemented by the FCC to remove access charges paid by carriers and recover a portion of this from the end user. The EUCL and the Interstate Common Line Charge (ICLS) support amount, also implemented by the FCC to reduce access charges paid by carriers, allow cost companies to recover their interstate Carrier Common Line (CCL) revenue requirement through the explicit ICLS mechanism. Kansas access rates are lower because of state USF support.

If the FCC adopts the NBP proposed elimination of access charges or takes the rate to an arbitrary level of say \$0.0007, Peoples will require a replacement revenue source for both interstate and state access revenue in order to maintain its current level of services and meet its debt service obligations. Peoples assumes that the replacement of intrastate access may also require approval from the State Commissions.

The NBP projected revenues do not include revenues from any unknown source or from the proposed Connect America Fund (CAF) to replace the lost revenue resulting

from decreases in access and changes in legacy USF programs. The NBP revenue changes result in a negative cash-flow by 2013 reaching almost a million dollars by 2016.

VIII. OPINION SUMMARY

Peoples' revenue is generated from end users, carriers and universal support (*Exhibit I*). Even if local rates are set at comparable rates to an urban landline provider or a wireless provider, the revenues generated on Peoples' lines will not cover our expenses (*Exhibit III*).

Peoples presents the financial documentation to the FCC to support our opinion that the proposals to cap legacy high-cost support at 2010 levels, and phase-out of legacy high-cost funding and/or per minute-of-use charges by 2020 will negatively affect the affordable and dependable voice and data services for our customers. The FCC must consider adequate replacement of lost support revenues to maintain the existing goals and objectives of universal service.

Peoples Telecommunications, LLC respectfully requests that the FCC consider the impact to the rural companies in its changes to the legacy USF support mechanisms as the FCC adopts policies that may cap the legacy high-cost programs or replace it with the CAF. As our financial information demonstrates, Peoples serves a high-cost area and in order to achieve the universal service goal of comparable services at affordable rates, Peoples will require predictable and sufficient USF or CAF to continue providing affordable quality services to our rural customers.

If the proposals, as set forth by the FCC in the Notice of Proposed Rulemaking are implemented without an adequate and sustainable USF revenue replacement, Peoples

Peoples Telecommunications LLC
WC Docket No. 10-90; GN Docket No. 09-51; WC Docket No. 05-337
July 12, 2010

Telecommunications, LCC may no longer be considered a financially viable business because its ability to meet future debt service requirements will be seriously threatened.

Respectfully submitted,

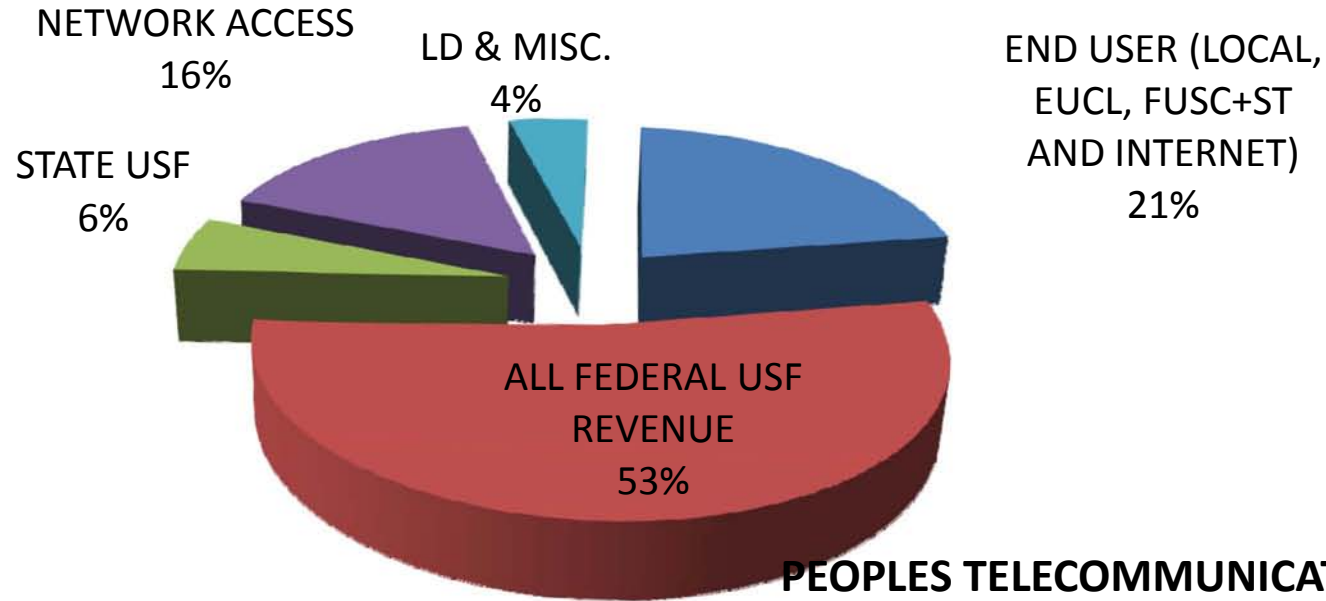
/s/ Kathy Faircloth

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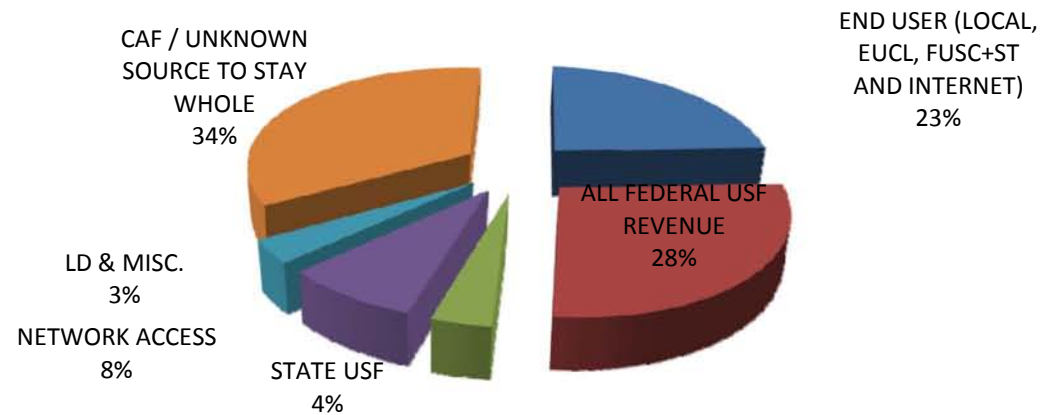
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WC Docket No. 10-90; GN Docket No. 09-51; WC Docket No. 05-337
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PEOPLES TELECOMMUNICATIONS LLC **2009 Monthly Revenue Source Per Line**



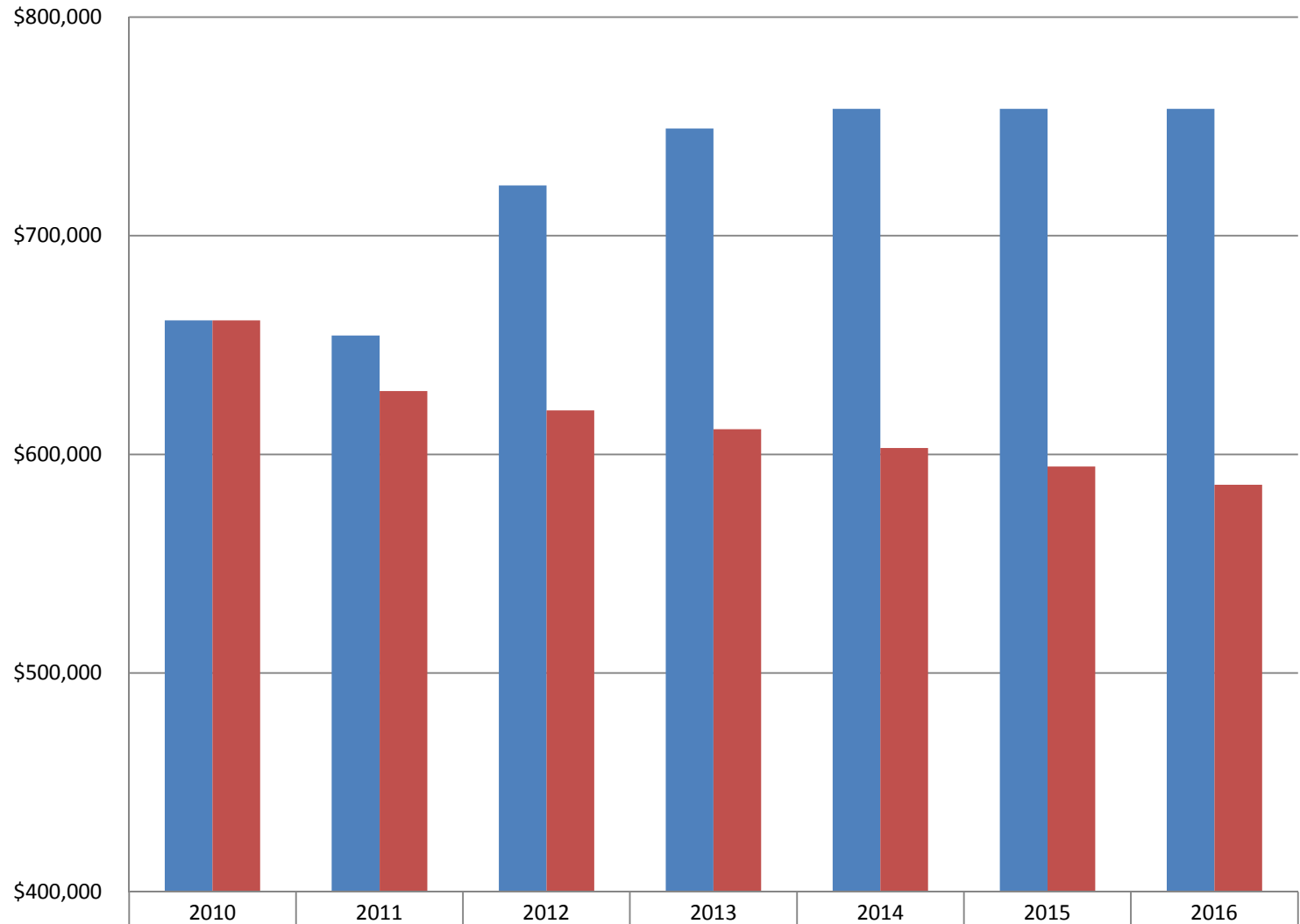
PEOPLES TELECOMMUNICATIONS LLC **2015 Proposed Monthly Revenue Source Per Line**



PEOPLES TELECOMMUNICATIONS LLC

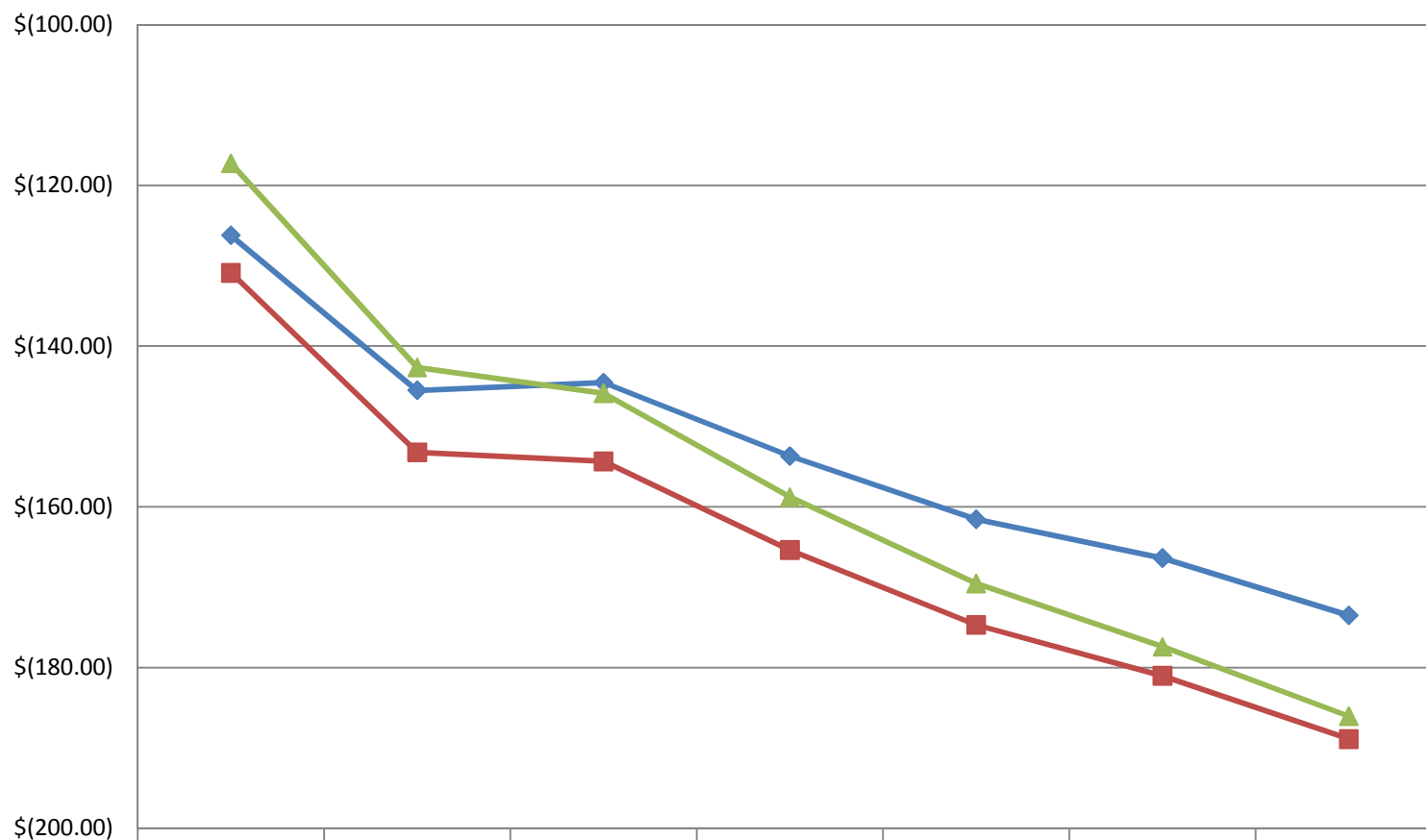
Exhibit II

Comparison of Current ICLS Projection vs. Frozen at 2010 Levels Per Line



Projected ICLS (unfrozen):	\$661,312	\$654,319	\$722,917	\$748,989	\$757,941	\$757,941	\$757,941
ICLS - frozen @ 2010 Per Line Amt	\$661,312	\$628,978	\$620,173	\$611,490	\$602,929	\$594,488	\$586,166

PEOPLES TELECOMMUNICATIONS LLC
Monthly Revenue Shortfall from Covering Expenses at Comparable
Rural/Urban/Wireless End User Benchmark Rates
(Does NOT Include any Return on Rate Base)

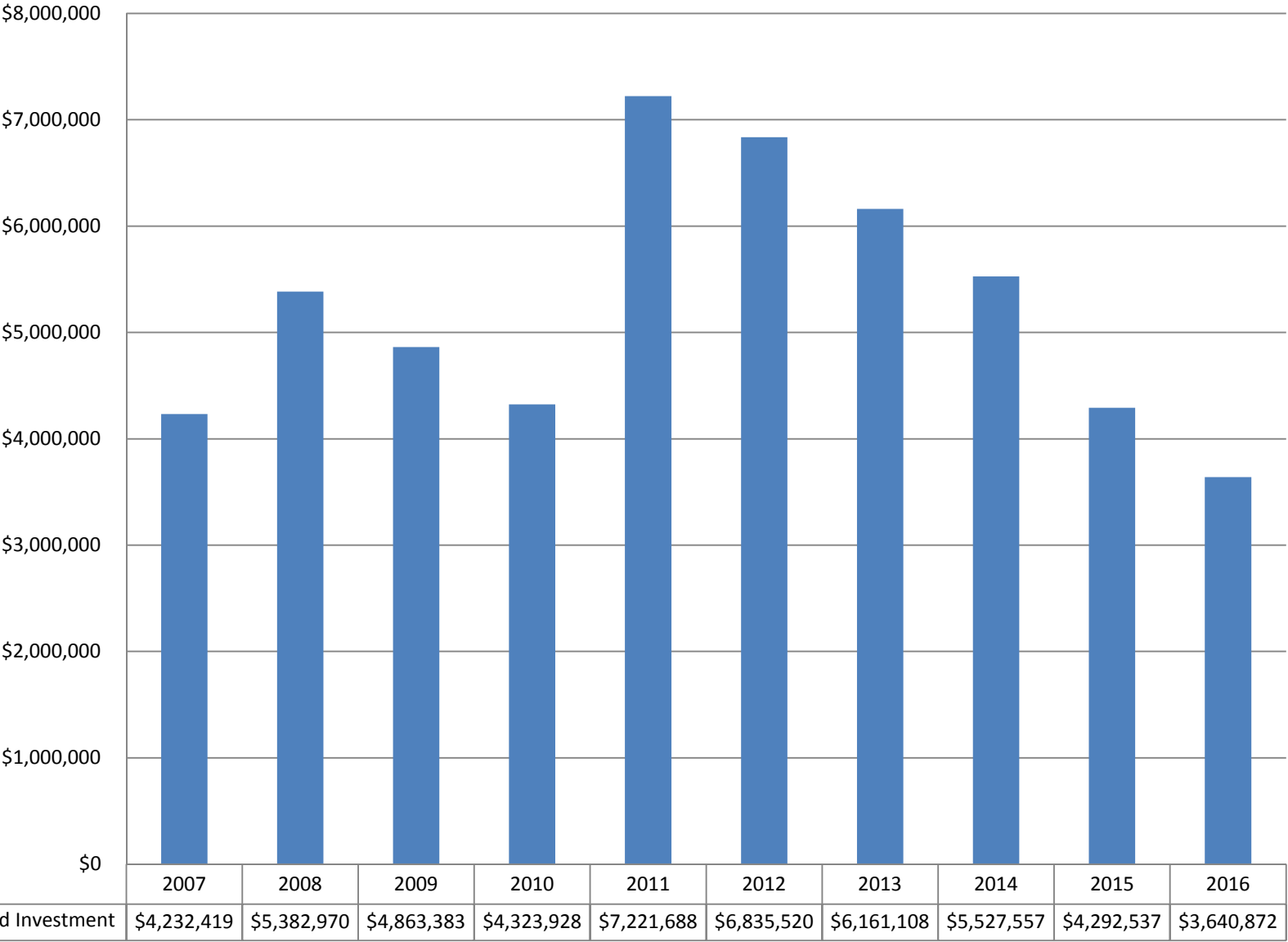


AT ILEC'S RATES	2010	2011	2012	2013	2014	2015	2016
	\$(126.24)	\$(145.52)	\$(144.56)	\$(153.70)	\$(161.57)	\$(166.39)	\$(173.51)
AT AT&T'S RATES	2010	2011	2012	2013	2014	2015	2016
	\$(130.90)	\$(153.23)	\$(154.36)	\$(165.38)	\$(174.69)	\$(181.03)	\$(188.91)
AT SPRINT'S WIRELESS RATES	2010	2011	2012	2013	2014	2015	2016
	\$(117.26)	\$(142.65)	\$(145.87)	\$(158.79)	\$(169.54)	\$(177.41)	\$(186.05)

PEOPLES TELECOMMUNICATIONS LLC

Projected Regulated Net Investment

Exhibit IV



PEOPLES TELECOMMUNICATIONS LLC

Projected High Cost Loop Support

Exhibit V

\$1,400,000

Reflects BIP Investment

\$1,300,000

\$1,200,000

\$1,100,000

\$1,000,000

\$900,000

\$800,000

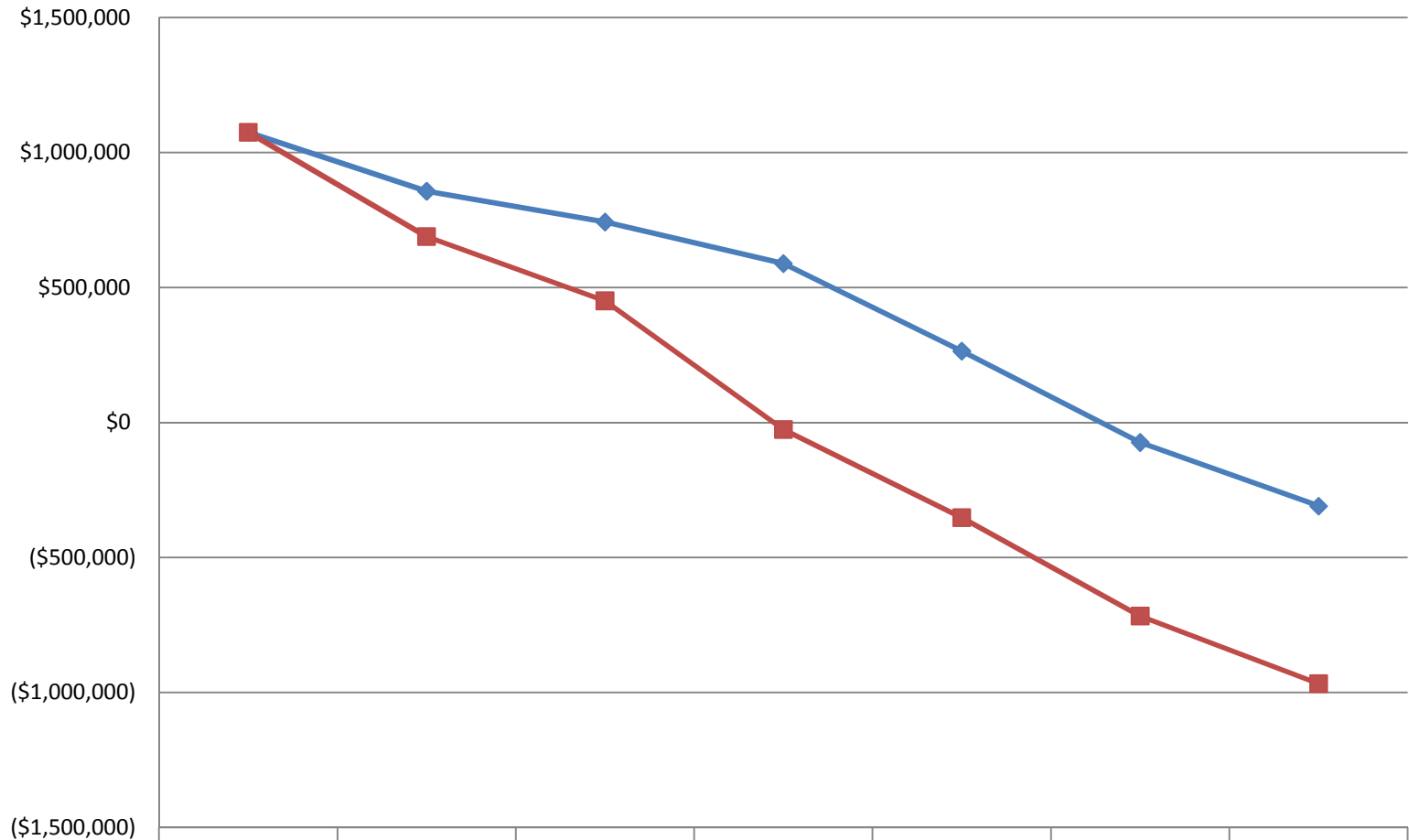
	2010	2011	2012	2013	2014	2015	2016
HCL Support @ WGA Projected NACPL	\$1,243,953	\$1,243,481	\$1,167,596	\$1,348,243	\$1,243,842	\$1,214,156	\$1,157,453
HCL Support @ NECA's Projected NACPL	\$1,230,006	\$1,229,451	\$1,132,579	\$1,277,091	\$1,118,772	\$993,327	\$856,498
HCL Support if Amount/Line Frozen @ 2010 Level	\$1,230,006	\$1,239,574	\$1,222,177	\$1,204,779	\$1,187,382	\$1,169,984	\$1,152,587

PEOPLES TELECOMMUNICATIONS LLC

Exhibit VI

Cash Flow Projection

(With ICLS Frozen, HCL, State and Interstate Access Reduced 10% Per Year)



◆ Business As Usual Cash Flow

■ NBP Cash Flow

2010

2011

2012

2013

2014

2015

2016

\$1,074,541

\$856,247

\$742,260

\$588,535

\$264,366

\$(73,829)

\$(309,577)

\$1,074,541

\$688,187

\$450,394

\$(25,871)

\$(352,508)

\$(716,973)

\$(967,489)